ANNUAL REPORT 98

HAMPTON COURT RESOURCES INC.

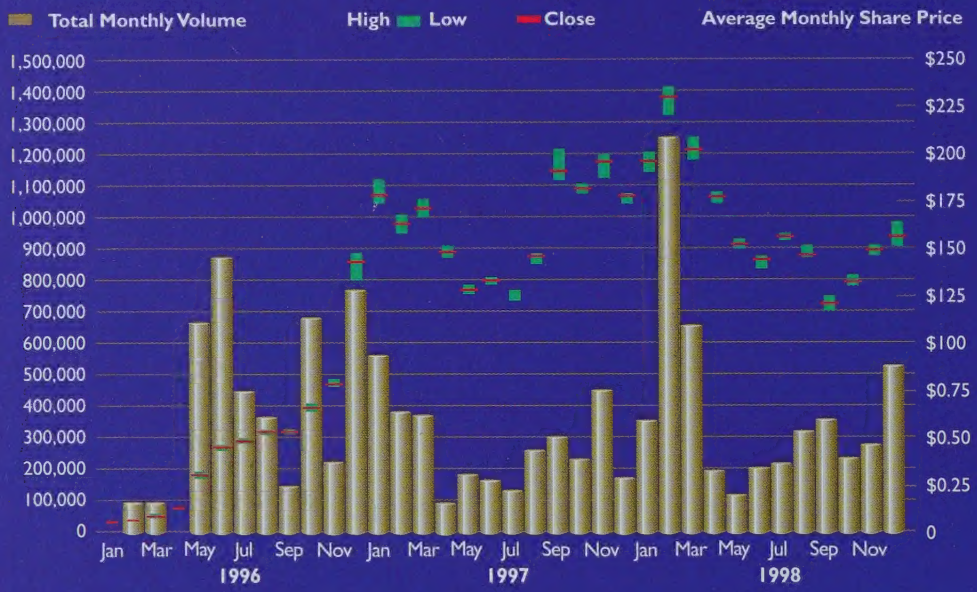
CORPORATE PROFILE

Hampton Court Resources Inc. is a multi-national company pursuing exploration and development of natural resources.

The Company is focused on several projects with large resource potential: natural gas in Oklahoma/Arkansas and Southern Texas and the 100% owned Primera Fortuna Gold Project in Ecuador.

Hampton Court Resources Inc. is listed for trading on The Alberta Stock Exchange under the trading symbol: ***HCR***

SHARE VOLUME & TRADING PRICE 1996-1998



SPECIAL & ANNUAL GENERAL MEETING

HCR is currently involved in negotiations aimed at raising the capital required to fund the Primera Fortuna Gold Project, Ecuador and the Arkoma and South Texas natural gas projects. The outcome of these negotiations may result in a material change in the share structure of the corporation, requiring shareholder approval. The Company has therefore elected to delay establishing the date of our Annual Meeting until the outcome of these discussions is clarified. HCR anticipates that a Special and Annual General Meeting of the corporation will be held in July or August 1999. All shareholders will be notified of the time and place when the final date is selected.

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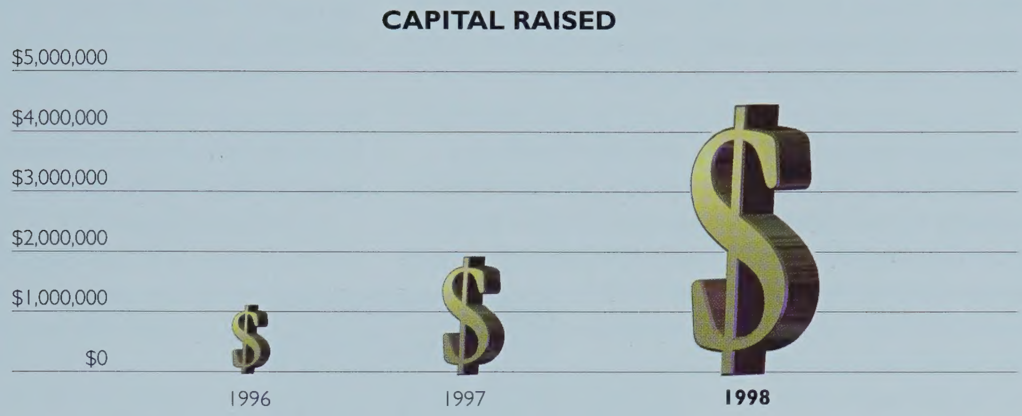
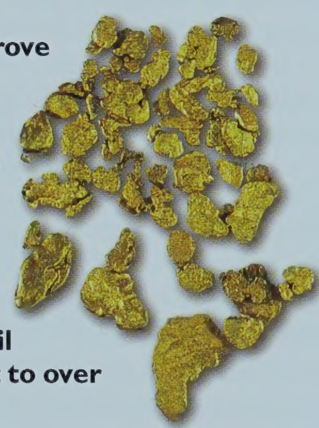
HIGHLIGHTS 1998-1999

CORPORATE



MINING

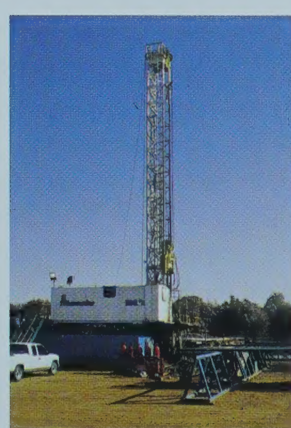
- independent evaluation confirms HCR's discovery of placer gold mining district with multi-million ounce potential
- purchase of drills to expand testing program and prove reserves
- 16 potential mine sites indicated at year end
- testing establishes resource base of 148,000 ounces of fine gold to end of 1998
- pilot-mining commences at Primera Fortuna #1 Mine in April 1999
- Ecuadorian government grants five mineral exploration concessions to the Company in March/April 1999 doubling size of Primera Fortuna Gold Project to over 300 square kilometres



NATURAL GAS

ARKOMA BASIN

- 74,000+ acres acquired to date
- two wells tied-in and producing
- 38 prospects identified to date
- 17 prospects ready to drill
- two wells scheduled for drilling in spring 1999



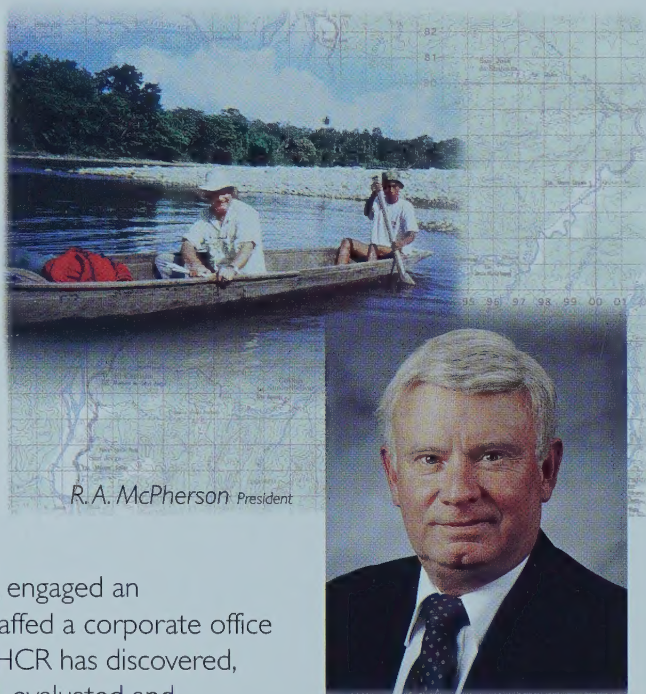
SOUTH TEXAS

- targets identified
- land acquisition underway with one well scheduled for drilling in first half of 1999

SHAREHOLDERS

We, at Hampton Court Resources, are proud of our progress throughout 1998 which can best be described as a transitional and pivotal year. Our past year of operations was marked by significant headway toward a truly diversified multi-national resource company.

Several important achievements, as well as some inevitable delays characterized our progress. Facing the most difficult natural resource market in recent memory, HCR was able to independently raise over Cdn$4 million through a combination of equity and debt financing. Sound management and strategic allocation of these funds allowed exploration and land acquisition to continue through 1998 and early 1999 on our major projects. As a result, HCR discovered a previously undocumented placer gold mining district in Ecuador with multi-million ounce potential that will forever change the face of the Company.



R.A. McPherson President

MINING - PRIMERA FORTUNA GOLD PROJECT

The Primera Fortuna Gold Project in Ecuador presents exciting potential for HCR. In less than two years the Company has established an Ecuadorian subsidiary company, acquired lands, engaged an independent consultant and fully staffed a corporate office in Quito and a field office in Tena. HCR has discovered, obtained, mapped, surveyed, tested, evaluated and documented a world-class placer gold mining district. Our independent consultant has verified that introductory exploration drilling to the end of the year has developed a resource base containing 148,000 ounces of fine gold. The Company has now removed significant risk from the project as the value of this initial resource base has surpassed all capital expended on exploration in Ecuador to date (Cdn$2.8 million). HCR steadfastly believes this project has enormous future potential through ongoing exploration. In order to maximize shareholder value, the Company has maintained 100 per cent interest of the Primera Fortuna Gold Project during the exploration stage and does not intend to entertain offers from other mining companies until such time as it believes it is beneficial to our shareholders.

Hampton Court anticipates 1999 will be its break-through year as the Company establishes significant cash flow from the Primera Fortuna #1 Mine. The mine is designed to produce 50 ounces of gold per day once the 115 cubic metre per hour processing plant is running at optimum capacity. This mine will serve as a test case for multiple mine sites over the broad expanse of our concessions, as well as financing the ongoing evaluation of this exciting project. Environmental assessments, exploitation permit applications and preparation of production facilities are currently underway and production is slated to begin in 1999.

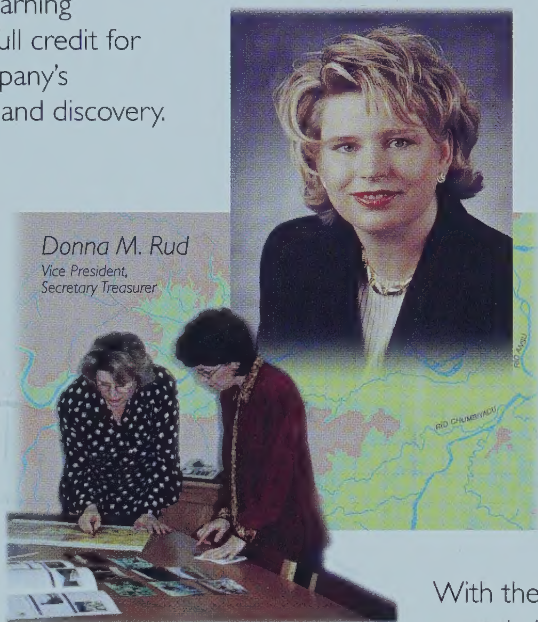
Concurrently, evaluation of the balance of the project area is ongoing. The evaluation stages range from mapping and surface sampling through to drilling and test-pilot mining. Due to El Nino and its after effects, progress was slowed in 1998 and first quarter of 1999. However, it was HCR's goal to test the weather conditions to determine if year-round mining was realistic. Although we found that environmental factors need to be considered in our economics and planning, it is indeed possible to mine throughout the year on most areas of our concessions.

A designated area of interest was established at the outset of the project in late 1996. Since that time the Company successfully acquired over 90 per cent of lands within this area. (A map outlining HCR's mineral concessions is located on page 10.) Throughout the coming year, HCR will allocate a significant portion of its budget (US$2.5 million) to exploration, evaluation and

"HCR's gold discovery in Ecuador will forever change the face of the Company."

development of all concessions to further define the gold potential of the project. Based on knowledge acquired through pilot-mining, a second mining site will be considered to increase production and cash flow. As well, the Company expects to significantly increase reserves throughout 1999 with ongoing exploration.

In early 1998 HCR doubled the initial size of the Primera Fortuna Project. This led to rapid expansion of operations in both Canada and Ecuador, adding many new members to our team of experts. Our employees turned every challenge into a learning opportunity and they deserve full credit for progress made during the Company's remarkable year of exploration and discovery.


Donna M. Rud
Vice President, Secretary Treasurer

NATURAL GAS

With the general downturn in the resource market in the past year, the strategy of the Company in 1998 was to significantly increase our land base in the Arkoma and South Texas Natural Gas Projects. The Company, along with its joint venture partners, kept a low profile in order to acquire long-term leases at all-time low prices. At a time when gas prices are forecast over US$3 per mcf in autumn 1999, HCR is poised to commence a multi-well drilling program on both the Arkoma and Texas Projects.

Arkoma Basin, Oklahoma/Arkansas: At the end of first quarter 1999, the joint venture partners, each with a 25 per cent interest in the Arkoma Natural Gas Project, had purchased over 74,000 acres of land and tied-in two producing wells. The planned multi-well drilling program was delayed in 1998 due to the decision by all joint venture partners to pursue drilling capital from a third party, on a prospect-by-prospect basis, to reduce the costs to the original joint venture partners. Third party funding was finalized in early 1999 for two, high-potential shallow wells scheduled to be drilled in spring 1999. Information from these two wells, combined with fundraising efforts in 1999, will dictate the direction the Company takes with respect to future drilling. The factors that led to HCR's participation in this project remain in place. With the upturn in natural gas markets and prices, the Company believes future drilling programs will confirm the forecast potential.

South Texas: HCR added an exciting new property to our inventory in 1998 with its commitment to the South Texas Natural Gas Project. The Company maintains varied interests in the project lands that include both shallow and deep prospects. Land acquisition in the area of interest is hotly contested by other oil and gas companies due to the tremendous success of previously drilled wells. Due to the competitive land situation, HCR has entered into a confidentiality agreement with the major partner in this project. Therefore, the Company will not be divulging details of this project until such time as they are of a material nature. Drilling is expected to commence on a high-potential prospect prior to the end of June 1999.

HCR 2000

With the onset of production in 1999 the Company expects to advance both the mining and oil & gas divisions and maximize the value of all projects currently underway. We look forward to continued growth and profitability in 1999. HCR's evolution is a result of sound management practices, prudent financial strategies and perseverance. We are committed to deliver shareholder value in all of our endeavours in the coming year and beyond. On behalf of all our employees, management and directors, we thank you for your continued support.

Robert A McPherson

R.A. McPherson
President
April 29, 1999

"With the onset of production in 1999 the Company expects to advance both the mining and oil & gas divisions and maximize the value of all projects currently underway."

ARKOMA BASIN PROJECT

The Arkoma Basin Joint Venture is a world-class natural gas exploration project located in the states of Oklahoma and Arkansas. HCR has a 25 per cent working interest in the project. The total unrisked potential of all prospects identified to date exceeds two tcf (trillion cubic feet). Drilling will recommence in the second quarter of 1999.

1998 ACTIVITY

- two wells onstream and producing with cash flow covering HCR's 25 per cent share of the general and administrative expenses for Arkana Operating Company
- one deep, high-risk, high-potential well was unsuccessful in the deeper zone. Up-hole potential remains viable
- 38 prospects identified to year end and prospect generation is ongoing
- geologic staff prepared 17 prospects for drilling
- Joint Venture partners pursued third party financing, on a prospect-by-prospect basis, to fund drilling costs

DRILLING IN THE ARKOMA BASIN

- prolific natural gas-prone Basin with extensive under-explored areas
- eastern portion of the Basin largely ignored in the past due to low gas prices, lack of gas pipelines and the absence of force pooling regulations
- new force pooling regulations, access to gas pipelines and higher prices together with a strong demand for natural gas have made the Arkoma Basin an excellent area for exploration
- technology, including 3-D seismic, surface geology and modern seismic reprocessing gives the Joint Venture a strategic advantage over other operators in the area who rely on traditional methods
- primary exploration targets are carbonate reservoirs within the Hunton and Arbuckle formations which have potential of 100 to 300 bcf-size (billion cubic feet) fields
- multiple lower-risk, secondary zones are present within the Pennsylvanian age sandstone reservoirs
- production from the Pennsylvanian interval is also commonly found within structural traps associated with deep structures — the carbonate play
- deeper carbonate formations and underlying sandstone reservoirs have not been extensively tested
- carbonate prospects are generally large structural features associated with up-thrown fault blocks
- the Penn Sands are a significant back-up zone for the deep exploration wells

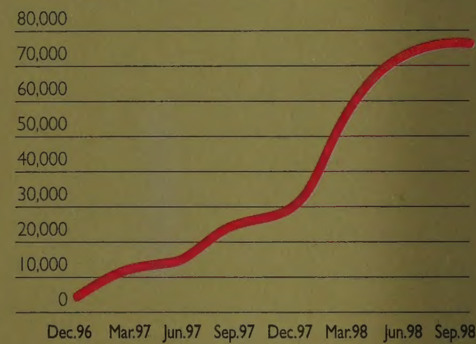
THE JOINT VENTURE

- HCR owns a 25 per cent working interest in the Arkoma Basin Natural Gas Project
- the Joint Venture unites technical expertise and experience of four Calgary-based resource companies
- initial seismic database of 4,000 miles has increased to over 6,000 miles (comparable to any operator in the Basin)
- proprietary seismic constitutes a large portion of the database
- basic geologic data purchased at the outset of the project has been augmented with surface mapping

THE LANDS

- aggressive land acquisition program commenced December 1996
- acreage acquired at reasonable prices due to low industry activity in the Arkoma Basin, particularly in the more remote under-explored prospect areas
- over 74,000 acres of prospect specific lands were acquired as at year end 1998
- typical lease terms are five years with a net revenue interest exceeding 80 per cent in most cases

Arkoma Project - Acres Leased



EXPLORATION PORTFOLIO

- most prospects have multiple pay-zone potential, generally consisting of one or more Penn Sand targets situated over a deeper high-potential carbonate target
- average prospect has four development locations associated with the initial exploration well (based on 640-acre spacing)
- average unrisked reserve potential per prospect:
  - shallow <4,000 feet: 25 bcf
  - intermediate 4,000-10,000 feet: 42 bcf
  - deep >10,000 feet: 115 bcf
- an independent evaluation of the Arkoma Project's undeveloped lands, utilizing an "expected value" analysis of the existing prospects, determined a

"Two high-potential shallow wells are scheduled to drill in the Arkoma Basin in the first half of 1999."

Prospects Currently in Development

Prospect Type	Exploration Depth			Total
	Shallow (<4000ft)	Inter-mediate (4000-10000ft)	Deep (>10000 ft)	All Depths (prospects)
Drill Ready Prospect	8	7	2	17
Prospect-Leasing	14	4	3	21
Leads	16	19	3	38
Trend Acreage	3	-	-	3
Total Prospects	**41**	**30**	**8**	**79**
Total Prospects (acres)	43,046	13,092	16,801	72,939

value of US$33.6 million. This value is based strictly on risked prospect economics and should not be considered as the fair market value of the project lands

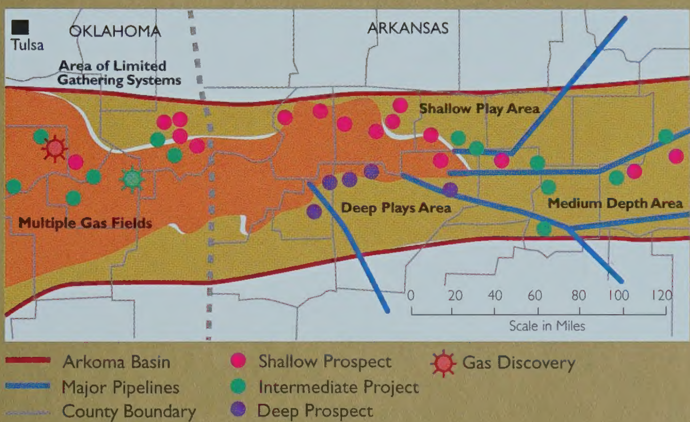
THE PROSPECTS

- of the 38 prospects developed to date, 17 are ready for drilling and generation of additional prospects continues
- prospects range from lower-risk step-outs located in and adjacent to the existing producing areas to higher-risk, higher-potential exploration wells situated in the undeveloped portions of the Arkoma Basin
- numerous shallow to moderate depth prospects located along the northern edge of the Basin
- several high-potential, moderate to deep plays along the central and southern edge of the Basin
- industry activity in the area is relatively quiet and an extensive network of under-utilized gas pipelines generally exist in close proximity to the prospects
- Arkoma Basin gas is sweet and dry; thus processing costs are minimal
- high demand for gas from the eastern United States
- gas sale price is strong (forecast to exceed US$3 per mcf in 1999)

1999 ARKOMA FORECAST

Following the success of the Joint Venture's land acquisition program, prospect generation becomes the primary focus of the project. The geologic team will prepare all current prospects for drilling and continue to identify new prospects within the project land holdings.

Location of 38 exploration prospects within the Arkoma Basin



Two high-potential shallow wells are scheduled to drill in the first half of 1999. Successful wells will be tied-in immediately and a development drilling program will follow thereafter. HCR has obtained industry partners to advance drilling costs in exchange for an interest in specific prospects. Drilling of additional prospects will be financed in this same manner or through direct participation by the Company.

SOUTH TEXAS PROJECT

HCR has established a second major exploration area in South Texas. The Company will participate in numerous exploration and development prospects:

- project area offers multi-zone, natural gas prospects
- high demand for natural gas in the area
- strong gas prices
- one low-risk, high-potential development well is expected to be drilled in spring 1999:
  - 8,500 feet
  - four potential pay zones will be tested
  - located less than one-half mile from a recent gas discovery
- HCR will participate in an additional well to be drilled in the second half of 1999
  - prospect lands are currently being acquired
  - deep prospect with unrisked reserve potential of one to three tcf

Details of the South Texas Project are unreported as HCR entered into a confidentiality agreement with the major Joint Venture partner in the Project. The low-profile approach has enabled the Joint Venture to acquire lands at a reasonable cost prior to drilling the first of a multi-well drilling program in 1999.

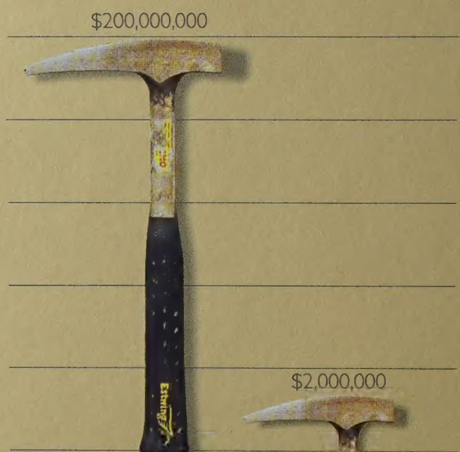
“The first well drilled in South Texas is located within one-half mile of a recently developed gas discovery and will test four potential pay zones.”

The Primera Fortuna Project is the exciting result of Hampton Court's extensive research and assessment of mineral properties in North, Central and South America. HCR has chosen to focus on mineral-rich Ecuador as it presents a similar geologic model to world-class placer deposits that occur around the Pacific Rim and the adjacent countries of Peru and Columbia. HCR has discovered a gold mining district with multi-million ounce potential and completed concession acquisition of over 90 per cent of the entire district.

WHY PURSUE PLACER GOLD DEPOSITS VERSUS HARDROCK (LODE) DEPOSITS?

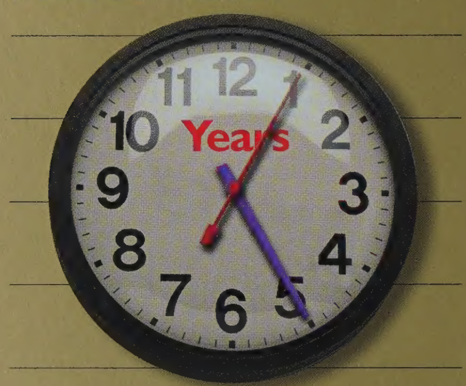
- exploration and development costs for placer gold deposits are a fraction of those expended by large mining companies on hardrock deposits. *This allows a junior resource company, such as HCR, to participate in the pursuit of properties with significant gold potential at reduced cost*

DEPOSIT DEVELOPMENT COSTS COMPARISON



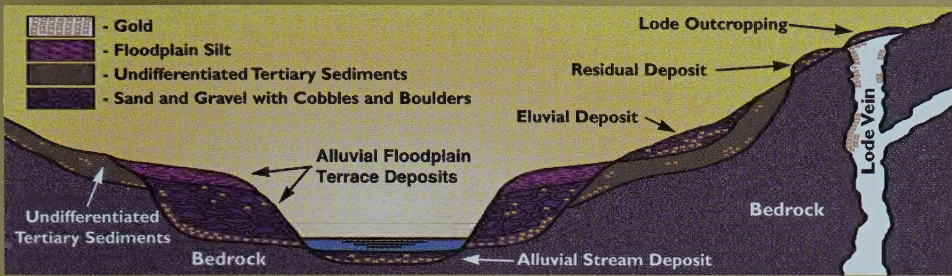
- there is a shorter time frame involved in placing a fully equipped placer gold mine on production (6 to 12 months.) compared to a large, open-pit hardrock deposit (three to five years). *HCR chose a mine site in mid-December 1998 and commenced pilot production in April 1999*
- placer deposits have supplied over 50 per cent of estimated world gold holdings. If South African Rand deposits are included (fossil placers), this figure increases to two-thirds of the world's gold. *Placer gold deposits are far easier to locate than hardrock deposits as they are found on or near surface. In most countries the presence of artisan miners (panners) is a key indicator for placer deposits. In Ecuador alone, there are over 200 known gold-bearing rivers*
- a lack of competition from major mining companies in North America who have concentrated on hardrock deposits since World War II. Therefore, expertise and technology in the placer sector of gold exploration has diminished and many companies do not have the capability to explore and evaluate placer deposits. *HCR has maintained its sole exploration focus on placer gold and has acquired the necessary personnel and experience to properly identify placer deposits*
- the industry's focus on open-pit deposits has resulted in technological advances in equipment such as large loaders, power shovels and excavators that can move tremendous volumes of material for pennies per yard. *This technology can be applied to placer deposits with similar results*
- with gold prices averaging up to US$300 per ounce, world-wide closures of hardrock mines that can no longer profit at these prices have occurred. *HCR's pre-feasibility study indicates that our placer gold deposits are economic at substantially lower prices. Future potential for elevated gold prices and increased demand make placer deposits even more desirable*

DEPOSIT DEVELOPMENT TIME FRAME COMPARISON

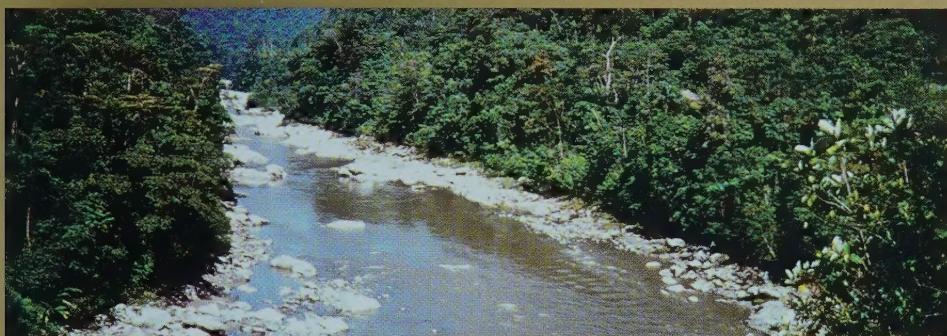


"HCR has acquired over 90% of the lands within the mining district."

NOVEMBER 1996 HCR team conducts reconnaissance mapping and sampling along the Rio Jatunyacu **DECEMBER 1996** The Company establishes an Ecuadorian corporate subsidiary **MARCH 1997** The Company applies to the Ecuadorian government for available concession lands in the area of interest **JUNE 1997** HCR awarded three concessions held under Mineral Exploration Permits (6-year term). Total area: 76.75 sq. km.



Schematic geologic cross-section of gold bearing sediments adjacent to Hampton's Concession areas



Esperanza de Grist Concession: view upstream on Rio Jatunyacu from Horseshoe Bend

WHY ECUADOR?

- long history of gold production dating back to pre-Inca times
- over 200 known gold-bearing rivers
- abundant mineral resources not extensively exploited due to lack of capital and technology
- large exploration concessions available from government at low cost
- qualified miners throughout the country
- low labour costs
- climate is well suited for lengthy mining season
- democratic government welcomes international investment
- current production is approximately 500,000 ounces per year valued at US$155 million at US$300 per ounce. Placer production comprises approximately 20 per cent of this total

WHY TENA? (HCR'S PROJECT AREA WITHIN ECUADOR)

- geologic setting is similar to a world-class placer operation in Bolivia and ideal for development of large placer gold deposits
- preliminary exploration confirmed immense volumes of gold-bearing sand and gravel
- relatively low overburden on the gold-bearing sediments
- abundant water supply
- good infrastructure (population 10,000)
- excellent access to concessions

MINING INCENTIVES AND MARKETING

- Ecuadorian government wants to create 40,000 new jobs and increase mineral resource revenue to US$500 million per year
- mining laws were revised in 1991 providing extensive incentives for exploration
- additional proposed changes to mining laws in 1999 would further stimulate exploration and development
- three per cent royalty on gold can be offset against income tax (one of the proposed changes to the mining laws, if passed, would be to reduce or eliminate the royalty entirely)
- four-year, 100 per cent amortization schedule for exploration and capital expenditures
- repatriation of profits without limitation
- foreign companies are not compelled to have Ecuadorian nationals as partners
- minerals may be sold anywhere in the world. The 500,000 ounces produced in 1995 were sold to: England 75 per cent, United States 11 per cent, Germany 7 per cent, Switzerland 5 per cent and Mexico 2 per cent
- once the bullion content has been established, payment is instantaneous upon delivery and is made in the currency of the country to which the gold is sold

"The geologic setting of HCR's Primera Fortuna Project is similar to a world-class placer gold operation in Bolivia."

TESTING

PROJECT OVERVIEW

Realizing the significant potential of the Project from the outset, and the risks involved, HCR believed that a cautious, conservative approach to all aspects surrounding the Primera Fortuna Gold Project was in the best interest of the shareholders. Therefore, once the concessions were chosen and an area of interest designated, a step-by-step approach was taken to evaluate the project lands.

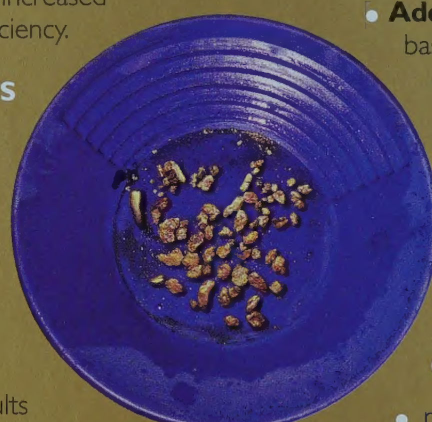
1. Assembled a geologic team with local knowledge and extensive placer experience
2. Contracted an independent placer gold expert to verify HCR's results and provide future recommendations
3. Commenced reconnaissance mapping, surface sampling, trenching and test-pitting
4. Selected internationally recognized laboratories in both North and South America to assay samples
5. HCR's encouraging evaluation results were supported in a report issued by the independent placer gold expert
6. Purchased drills in order to establish a three dimensional aspect to evaluation process with drill holes spaced at approximately 500 metres
7. Combination of all test results revealed discovery of a previously undocumented placer gold mining district in Ecuador. This has been substantiated by the independent placer gold expert
8. Information processed to December 1998, indicated 16 initial mining targets. HCR selected one site for pilot-mining
9. HCR prepared for pilot-mining in spring 1999 to determine all factors associated with production of gold

It is essential to thoroughly evaluate all project lands to ensure prospective economic areas are not overlooked. Testing procedures are at different stages across the vast expanse of the concessions.

HCR's pilot-mining operations on the Chumbiyacu River, the final stage in the evaluation procedure of these particular lands, are being conducted on a small scale. The Company believes this course will result in increased productivity and efficiency.

1998 OBJECTIVES

- mapping and surface sampling
- trenching and test-pitting
- commence drilling program
- independent verification of practices and results
- obtain additional lands if testing supported expansion of the project area



1998 - 1999 RESULTS

HCR has identified a resource base of 148,000 ounces of fine gold based on 48 holes drilled to year end. Drilling was limited to a fraction of the concession lands and the Company expects this resource base to increase as ongoing testing results are evaluated and verified. The following details the progress achieved in 1998:

- **Mapping and Sampling:** detailed mapping and surface sampling was completed on approximately 150 square kilometres
- **Trenching and Test-Pitting:** based on initial mapping and sampling, higher interest areas were trenched and test-pitted
- **Drilling:** an aggressive drilling program commenced in April 1998. Sixty-eight holes had been drilled to the end of first quarter 1999. Drilling progress was hampered by boulders and unusually inclement weather due to El Nino.
- **Independent Verification:** HCR received reports substantiating results of all activities to year end 1998
- **Additional Concessions:** based on the significant potential of the Primera Fortuna Gold Project, the Company applied for and was granted five additional concessions in March/April 1999

1999 – 2000 TESTING OBJECTIVES

- map and test sample the remainder of all concessions
- drill additional targets as testing indicates

> ***"Full-scale mining at Primera Fortuna #1 Mine will self-finance continued project exploration."***

SEPTEMBER 1997 HCR FORMS A GEOLOGIC TEAM TO CONDUCT MAPPING AND SAMPLING ON CONCESSIONS. INDEPENDENT IS CONTRACTED TO VERIFY RESULTS **DECEMBER 1997** THE COMPANY IS AWARDED THREE ADDITIONAL CONCESSIONS BY THE ECUADORIAN GOVERNMENT. PROJECT AREA INCREASES TO 183.37 SQ. KM **FEBRUARY 1998** INITIAL INDEPENDENT EVALUATION SUPPORTS MANAGEMENT'S VIEW THAT PROPERTIES HAVE TREMENDOUS POTENTIAL **APRIL 1998** TWO DRILLS PURCHASED AND HCR EXPANDS WORK FORCE AS DRILLING PROGRAM COMMENCES

- complete pilot-mining at Primera Fortuna #1 Mine and proceed with full-scale mining to self-finance continued exploration
- commence pilot-mining on other locations as designated by test data

ENVIRONMENTAL AND SOCIAL ISSUES

HCR Drill Site Prior to Reclamation.

The environmental advantage was a key consideration in Hampton Court's decision to pursue placer gold mining. Minimal disturbance of land occurs during the entire exploration phase and ongoing reclamation can be achieved throughout the life of placer mines.

ENVIRONMENTAL FACTORS AND REQUIREMENTS

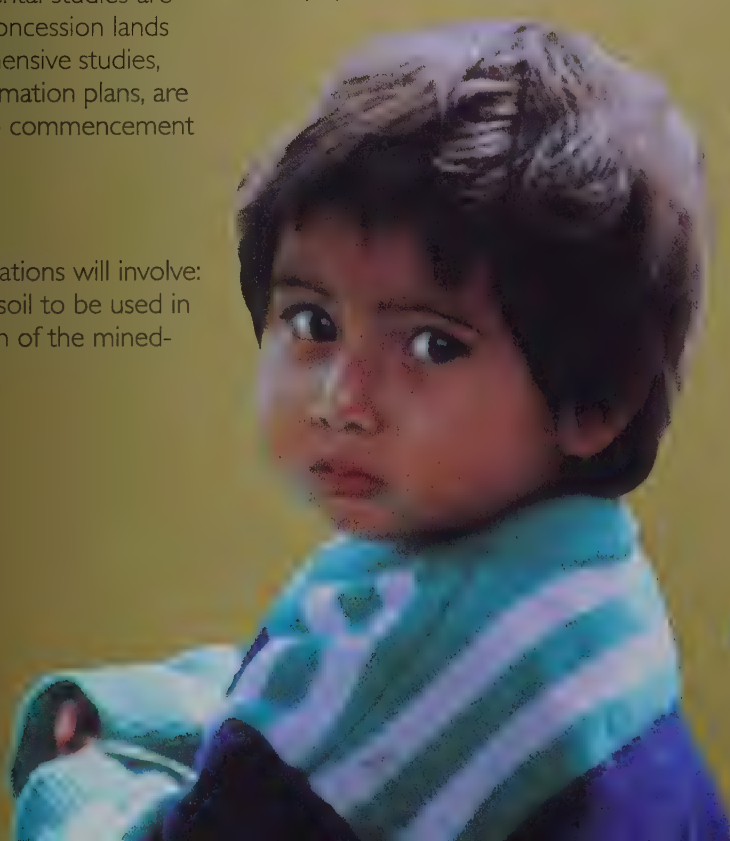
- baseline environmental studies are conducted on all concession lands
- additional comprehensive studies, together with reclamation plans, are completed prior to commencement of pilot-mining

MINING

- HCR's mining operations will involve:
  - stockpiling of topsoil to be used in future reclamation of the mined-out areas
  - digging out the gold-bearing gravel and mechanical washing, sorting and screening to recover the gold and black sand concentrates
  - discharging silty wash water to settling ponds that will be reclaimed after mining is completed
  - re-depositing sand and gravel into the mined-out areas once the gold has been removed
  - involving surface land owners in the reclamation process
  - quick re-vegetation of reclaimed areas. Re-growth is apparent within weeks and full growth is achieved within months due to the hot, sunny climate and abundant rains in the area

INDIGENOUS PEOPLE OF ECUADOR

- HCR will not prevent local residents from panning for gold on our concessions. This has been a traditional practice of the indigenous people for over 400 years and does not in any way affect the economic viability of the project. (For safety and security reasons access to mining sites is restricted to authorized personnel)
- the Company intends to mine in unpopulated areas; however if the need arises, HCR will work with local residents to ease temporary relocation
- the Company is able to offer employment to landowners during both the testing and reclamation stages. During reclamation, HCR is able to contribute to the community by using our equipment and personnel to help residents in their reclamation goals (i.e. level property to better suit farming operations, drill water wells for community use; these terms are agreed upon prior to executing surface access agreements)



CORPORATE MANDATE

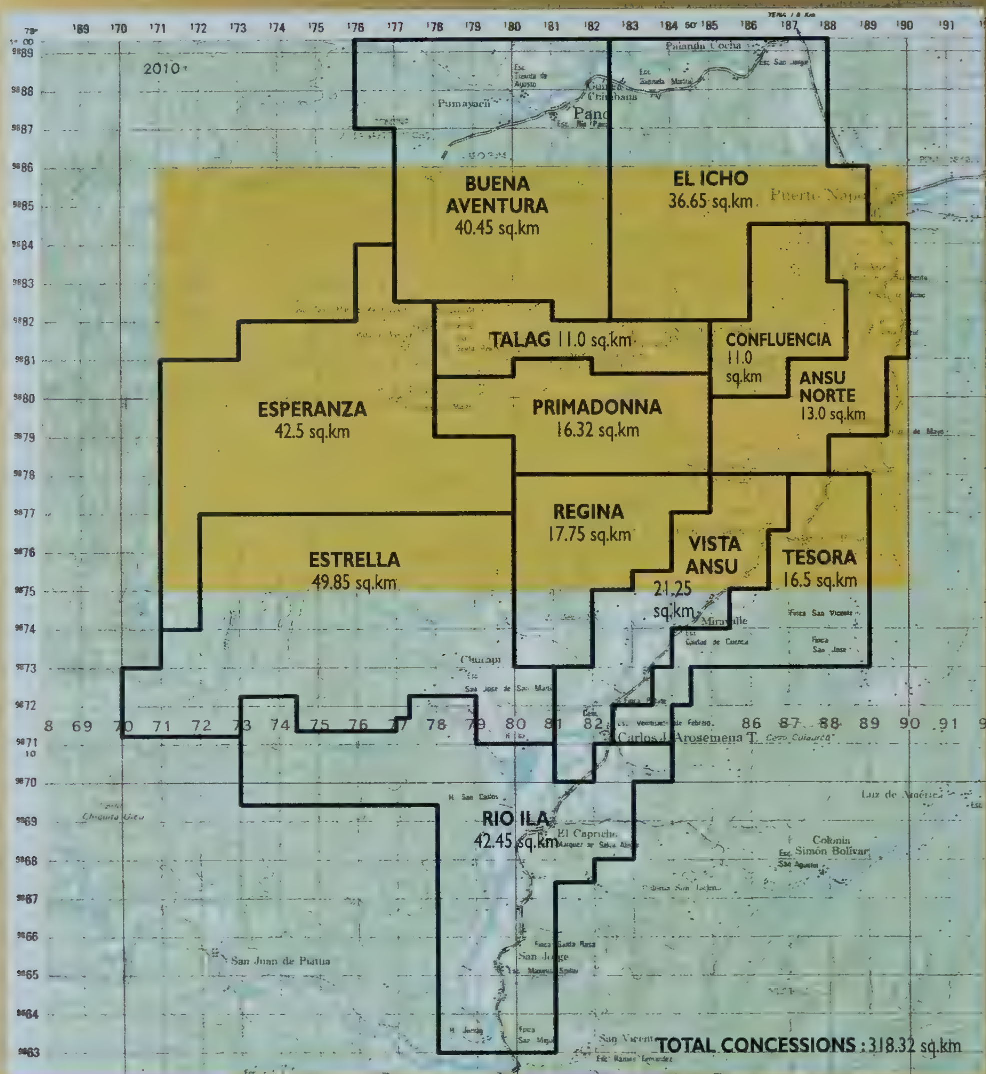
- the Company is committed to working with the government and people of Ecuador to achieve the responsible development of their natural resources. HCR will respect the distinct culture and traditions of the people of Ecuador
- the Company will not test or mine any areas containing virgin rainforest
- HCR will not introduce any foreign substances into the environment

HCR is committed to following the highest standards possible with respect to environmental protection during the testing and production stages of the Primera Fortuna Gold Project.

"HCR is committed to working with the government and people of Ecuador to achieve the responsible development of their natural resources."

CONCESSIONS

Primera Fortuna Mining District



= 1 sq. km. Floodplain of Jatunyacu River and portion of Ansu River Floodplain

> *"HCR owns 100 per cent interest in exploration rights to all concessions; title has been verified through independent title opinion."*

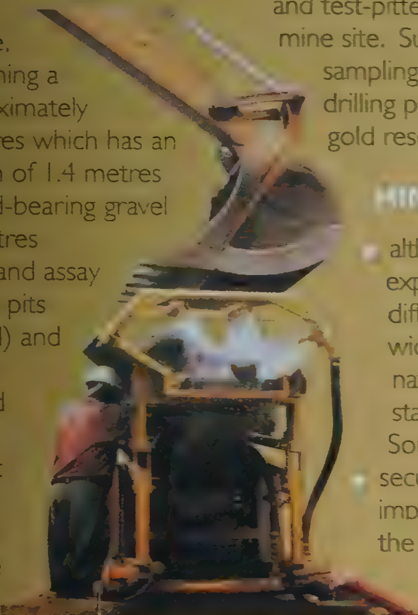
- eleven concessions (under exploration permit), located in the Tena area of central Ecuador, have been granted to HCR by the Ecuadorian government. The final concession, Vista Ansu is currently under application
- concessions can be held up to six years (three two-year terms). Annual fees payable to hold each concession are:

  - first two-year term: US$1.73 per hectare
  - second two-year term: US$5.18 per hectare
  - third two-year term: US$8.63 per hectare
- semi-annual progress reports are filed with the Ecuadorian government detailing exploration conducted, investment made, results obtained and future plans
- HCR can convert to exploitation permits at any time during the six-year period to allow for long-term mining; annual fees on exploitation concessions are US$5.20 per hectare
- a three per cent royalty, based on total production is payable to the Ecuadorian government
- project area currently totals 318.32 square kilometres (including the Vista Ansu concession currently under application)
- HCR owns 100 per cent interest in exploration rights to all concessions (verified by independent title opinion and annual audits)

DECEMBER 1998 Independent placer expert confirms HCR's discovery of placer gold mining district with tremendous potential. Initial resource base of 30,800 ounces of gold. First mine site chosen **FEBRUARY 1999** Independent report increases HCR's resource base to 148,000 ounces of gold based on results to year end **MARCH/APRIL 1999** HCR is granted five additional concessions, increasing the total area to 318.32 sq. km. **APRIL 1999** Commenced pilot-mining at Primera Fortuna #1 Mine using 115 m^3/hour processing plant.

PILOT-MINING AT PRIMERA FORTUNA #1 MINE

- HCR commenced gold production in April 1999 at the Chumbiyacu River mine site using the Company's 115 cubic metres per hour processing plant
- as an initial test case, the Company is mining a small area of approximately 62,000 square metres which has an average overburden of 1.4 metres and an average gold-bearing gravel thickness of 1.6 metres
- based on sampling and assay results from 26 test pits (on a 50-metre grid) and three trenches, the average course gold content is 445.6 milligrams per cubic metre
- the gold reserve at the pilot-mining site is estimated to be 1,211 ounces; potential recovery of fine gold could add an additional ± 20 per cent to this estimate
- this test-case mining area will:
  - provide actual mining costs
  - establish efficiency of the 115 cubic metres per hour processing plant (in particular, fine gold recovery)
  - provide mining experience and determine the need for additional equipment required to mine more efficiently
  - establish HCR's initial cash flow from the Primera Fortuna Gold Project
  - test security measures
- nine kilometres of prospective gold-bearing sediments exist along the floodplains of the Chumbiyacu River, both upstream and downstream from the initial mining site



- HCR will continue to map, trench and test-pit these deposits in advance of mining
- gold-bearing Mera Formation sediments on the adjacent highlands are currently being channel-sampled and test-pitted in the vicinity of the mine site. Successful test results from sampling the Mera will lead to a drilling program to expand the gold resource base

MINING SECURITY

- although Ecuador is currently experiencing economic difficulties, the country is widely known as a safe nation with the longest standing democracy in South America
- security is of primary importance to HCR and the best methods available will be utilized to protect both the natural and human resources of the Project
- HCR's security plan has been developed based on other successful mining operations
- in order to protect the shareholders' investment and safeguard personnel, HCR will not release any sensitive information with respect to the security plan

Base Camp under construction at Primera Fortuna #1 Mine

FUTURE PROJECT OBJECTIVES – 2000 AND BEYOND

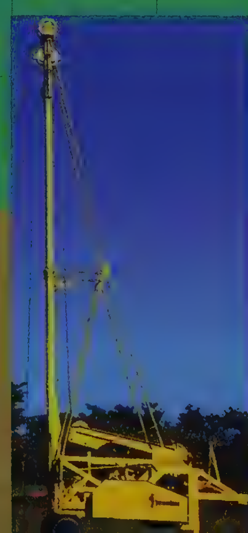
- complete geologic evaluation of HCR's eleven concessions
- obtain final concession currently under application
- purchase additional drilling equipment and drill all accessible lands on a minimum one-kilometre spacing unit to expand resource base and determine priority of mining targets
- complete permanent facility, currently under construction at the Primera Fortuna #1 Mine site, to house all mining personnel and serve as a base camp for field geologists and drill crews
- assess data from pilot-mining and commence optimum production at Primera Fortuna #1 Gold Mine
- expand pilot-mining program to other concession areas

"Mining on a small portion of one of HCR's concessions could feasibly fund the entire exploration program of the Primera Fortuna Gold Project, including capital costs, for years to come."

Elevation Colour Code: (metres)

- 600+
- 560-600
- 520-560
- Below 520

= 1 sq. km.



Floodplain of Jatunyacu River and portion of Ansu River Floodplain

The following discussion of the results of HCR's operations should be read in conjunction with the financial statements of the Company and notes thereto. There have been no major changes in accounting policies during the period.

The Company has active exploration programs encompassing the mining (gold) and oil & gas sectors. HCR conducts activities in Canada and internationally. Management and associates were successful in their funding endeavours and privately raised Cdn$4.4 million. Careful implementation of these funds allowed the Company to accelerate the evaluation of the Primera Fortuna Gold Project through the introduction of drill testing. HCR also continued with a land acquisition program for the Arkoma Natural Gas Project and entered into a new joint venture, the South Texas Natural Gas Project.

ECUADOR

During 1998, the main utilization of capital and manpower was dedicated to ongoing evaluation of HCR's Primera Fortuna Gold Project. After raising significant capital in difficult equity markets, HCR purchased two churn drills in the first half of 1998 and exploration drilling began in earnest. By year end, 862 metres (48 holes) were drilled. Field geologists continued mapping and sampling our concessions, including the three additional concessions, totalling 183.37 square kilometres awarded to HCR in late 1997.

Throughout the year HCR utilized the services of an independent consulting firm known for its proficiency in placer gold evaluation. All work performed by HCR employees conformed to the strict guidelines set by the placer gold consultant. The expert conducted corresponding tests to reach independent conclusions when reporting to HCR.

Verified assayed samples from all types of testing (drill, bulk, surface) totalled 2,200 to year end 1998 and support HCR's contention that the Company has found a previously undocumented placer gold mining district. The independent consultant fully upholds the Company's position and has issued three reports to date outlining the start of an extensive gold resource base (currently 148,000 ounces of gold).

Based on these results and the considerable upside potential to enhance overall project economics, the Company intends to place on production at least one of 16 potential mining targets identified thus far. Further, HCR is proceeding with a pre-feasibility study for evaluation of the economic potential of the gold-bearing terraces along the Jatunyacu River floodplain (or valley).

HCR has taken a very conservative approach on this project in its efforts to protect the Company and its shareholders. HCR has witnessed other companies experience considerable difficulties in recent years when outside pressure forced premature announcements of exploration results. Management felt it was essential to have all our initial exploration results independently verified by a placer gold expert before releasing information to our shareholders.

The expert chosen by HCR is conservative and therefore we are confident the information we relay to our shareholders is fair and accurate. The data will also withstand the due diligence of any outside parties, whether they be analysts qualified to review placer properties or mining companies seeking large-volume, low-cost reserves. Although these safeguards add substantial cost to the project and prolong the reporting process, it is management's view that all possible steps must be taken to maintain the integrity of the Company.

HCR has funded the cost of exploration through equity financing (and a recent convertible debenture). Since the early stages of this project, HCR has received offers of working capital in exchange for joint venture participation in our project. The Company has declined all offers thus far believing the project has the potential of significant reserves. HCR intends to maintain sole ownership in these properties until we have fully evaluated their potential.

Due to our massive land holdings and our role as exclusive owner/operator, our shareholders must be prepared for a significant time commitment on the Primera Fortuna Gold Project. It will take more capital to bring additional mines

on production and continue the extensive drilling program needed to document reserves. However, once the first economic mines are in place, the project will become self-financing. We believe we have only scratched the surface of the potential that exists on our concessions. On behalf of our shareholders HCR intends to persevere until that potential is fully maximized.

UNITED STATES

The Company began 1998 involved in one large-scale natural gas joint venture project (Arkoma Basin) and committed to a second natural gas joint venture in South Texas before year end.

In 1998, we significantly expanded our land position of natural gas properties at reasonable cost. At year end our aggressive land acquisition program yielded over 74,000 acres in Oklahoma/Arkansas. Thirty-eight prospects have been identified to date and 17 of these are ready to drill.

The Company successfully completed and tied-in two wells in the Arkoma Basin, cash flow from which covered the Company's 25 per cent share of the U.S. operating company's general and administrative expenses (Arkana Operating Company). A deep, high-risk, high-potential well was unsuccessful.

The joint venture partners in the Arkoma Basin Project are actively seeking a third party to advance drilling costs in exchange for an interest in the project on a prospect-by-prospect basis. This will eliminate risk to HCR while maintaining an interest in the project. It is expected that wells will be drilled in the first half of 1999.

The Company is currently involved in land acquisition on its South Texas Natural Gas Project. Drilling is expected to commence in the second quarter of 1999.

GENERAL AND ADMINISTRATIVE

General and administrative costs include corporate office expenses related to the overall management of the business which are not part of direct operating costs.

The Company maintains three offices and participates in the costs of two joint venture offices. Offices are located in Calgary, Alberta and Quito and Tena, Ecuador. Arkana Operating Company maintains offices in both Calgary and Tulsa, Oklahoma.

It should be recognized that the Company is the sole owner and operator of the international Primera Fortuna Gold Project in Ecuador and therefore does not share any general and administrative costs with other parties. However, general and administrative costs for Arkana are split, with HCR responsible for 25 per cent and the other joint venture partners paying the remaining 75 per cent of the costs.

Total sum of general and administrative costs was $628,783 in 1998 compared to $211,610 in 1997. The increase is attributable to substantially expanded activities requiring the addition of operational staff and consultants in Canada, U.S. and Ecuador. The Company currently employs seven people in Canada and 25 in Ecuador, not including casual or part-time employees. The Company also employs experts and consultants on an as-needed basis in all countries where it is active.

The Company's U.S. subsidiary, Hampton Court Resources Corp., owns 25 per cent of the Arkana Operating Company, which oversees all operations for the Arkoma Basin Natural Gas Project. Arkana employs a varying number of people in Canada and the U.S. as required to deal with the fluctuating needs of the project.

LIQUIDITY AND CAPITAL RESOURCES

HCR's long-term financial success is dependent upon economic gold production from its first mine in Ecuador, the magnitude of the reserves the Company can prove on its Primera Fortuna Gold Project, the success ratio of natural gas wells drilled on both its Arkoma and South Texas natural gas projects, and the Company's ability to raise funds for required capital expenditures.

As at December 31, 1998 the Company had cash and cash equivalents of $572,691. The Company is endeavoring to raise sufficient capital to implement all exploration and development plans proposed for 1999.

HCR is confident, based on successful efforts in the past three years, that capital funding will be in place before the end of second quarter of 1999. However, if for any reason this financing is delayed, cash flow from the Primera Fortuna #1 Mine, as currently equipped, should be capable of funding basic exploration and development of the overall Primera Fortuna Project and meet all corporate obligations until such time as additional funding is obtained.

The Company has a demand bridge loan in place. It bears interest at prime plus two per cent, is collateralized by assets of the Company and personally guaranteed by the two officers of the Company. The loan is reduced by $10,000 per month. It is the intention of the Company to make a final lump sum payment of $140,000 to be paid on June 30, 1999. The Company expects to retire the debt in full with proceeds from the financing currently being negotiated.

HCR raised Cdn$1 million through a Convertible Debenture in 1998. Interest is 10 per cent per year and payable quarterly. In the event HCR's stock trades over $2.00 for 30 consecutive trading days the investment automatically converts to common stock at $1.30 per share. The Debenture expires on November 1, 1999.

BUSINESS OPPORTUNITIES AND RISKS

HCR is engaged in exploring business opportunities in Canada and internationally. The Company is exposed to a number of risks inherent in its pursuit of oil, gas and precious minerals. These risks include:

Exploration and Development: Exploration and the development of natural resources involves risk that a combination of careful evaluation, experience and knowledge may not eliminate. HCR employs a number of highly skilled, experienced and capable individuals in all areas of operations in an effort to achieve the highest possible level of success.

Security: Security issues come to the forefront once gold production commences. The safety of our staff and the protection of our shareholders' investment is of paramount importance to the Company. All conceivable steps have been taken to ensure this risk is alleviated as much as possible. HCR has engaged an international consulting company, specializing in mining security, to review our operations for possible improvement and to provide necessary training for employees. For the protection of the project and those involved no further information will be made available to the public.

Environmental: Protecting the environment from unnecessary or permanent damage is a concern for both the Company's management and its employees. HCR endeavors to exceed environmental regulations by striving to return all exploration and development areas to their original state. The Company ensures a heightened degree of care is undertaken in all our operations and since its incorporation in 1993, Hampton Court Resources has never had an environmental incident.

To the Shareholders of
Hampton Court Resources Inc.

We have audited the consolidated balance sheets of **Hampton Court Resources Inc.** as at December 31, 1998 and 1997 and the consolidated statements of loss and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and the changes in financial position for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
April 29, 1999

	Dec. 31, 1998	Dec. 31, 1997
ASSETS		
CURRENT ASSETS		
Cash	$ 572,691	$ 181,820
Accounts receivable - Note 3	344,407	219,024
	917,098	400,844
PRE-PRODUCTION COSTS	-	11,446
INVESTMENTS - Note 4	555,569	371,537
PROPERTY, PLANT AND EQUIPMENT - Note 5	6,080,765	3,402,881
	$ 7,553,432	$ 4,186,708
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Demand bridge loan - Note 6	$ 190,000	$ 200,000
Accounts payable and accrued liabilities	73,927	415,245
Due to related corporations - Note 7	33,055	35,071
Due to shareholders - Note 8	12,675	46,702
Long-term debt due within one year - Note 9	-	35,000
Convertible Debentures - Note 10	945,000	-
	1,254,657	732,018
SITE RESTORATION	9,600	5,600
SHAREHOLDERS' EQUITY		
Share capital - Note 11	7,253,943	3,644,557
Deficit	(964,768)	(195,467)
	6,289,175	3,449,090
See accompanying notes	$ 7,553,432	$ 4,186,708

APPROVED BY THE BOARD

Robert A McPherson

R.A. McPherson, Director

DRud

D.M. Rud, Director

	Year Ended Dec. 31, 1998	Year Ended Dec. 31, 1997
REVENUES		
Oil and gas sales, net of royalties	$ 195,887	$ 181,776
Alberta royalty tax credit	22,600	22,361
Interest and other	5,704	10,016
	224,191	214,153
EXPENSES		
General and administrative	628,783	211,610
Depletion and depreciation	119,008	96,494
Oil and gas operations	95,576	92,691
Interest expense	24,679	6,505
Amortization of pre-production costs	11,446	5,282
	879,492	412,582
Loss before other income (expenses)	(655,301)	(198,429)
OTHER INCOME (EXPENSES)		
Write down of investments	(114,000)	-
Gain on sale of investments	-	2,212
Net loss for the year	(769,301)	(196,217)
RETAINED EARNINGS (DEFICIT)		
Beginning of year	(195,467)	750
Deficit end of year	$ (964,768)	$ (195,467)

For per share information, see Note 17

See accompanying notes

	Year Ended Dec. 31, 1998	Year Ended Dec. 31, 1997
OPERATING ACTIVITIES		
Net loss for the year	$ (769,301)	$ (196,217)
Non-cash items:		
Depletion and depreciation	119,008	96,494
Amortization of pre-production costs	11,446	5,282
Writedown (gain on disposal) of investments	114,000	(2,212)
	(524,847)	(96,653)
Net change in non-cash working capital:		
Accounts receivable	(125,383)	(161,933)
Accounts payable and accrued liabilities	(341,318)	303,670
	(991,548)	45,084
FINANCING ACTIVITIES		
Increase (decrease) in due to shareholders	(34,027)	15,593
Increase (decrease) in due to related corporation	(2,016)	69,625
Repayment of reducing demand loan	(35,000)	(60,000)
Issuance of convertible debenture	945,000	-
Issuance of common voting shares (net of share issue costs)	3,609,386	1,719,286
Advances from (repayment of) demand bridge loans	(10,000)	200,000
	4,473,343	1,944,504
INVESTING ACTIVITIES		
Property, plant and equipment additions	(2,792,892)	(2,013,304)
Proceeds on sale of investments	-	14,000
Purchase of investments	(298,032)	(173,570)
	(3,090,924)	(2,172,874)
Increase (decrease) in cash during the year	390,871	(183,286)
Cash, beginning of year	181,820	365,106
Cash, end of year	$ 572,691	$ 181,820

See accompanying notes

December 31, 1998

NOTE 1 - NATURE OF OPERATIONS

The Corporation is engaged in the exploration for and the production of oil and natural gas in Western Canada and the United States. The United States properties are considered to be in the pre-production stage.

In addition, the Corporation is in the process of exploring its Ecuadorian mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon maintaining title in the properties, the ability of the Corporation to obtain necessary financing to complete the development, and upon future profitable production. The amounts shown as mineral properties represent net costs to date, less amounts written off, and do not necessarily represent present or future values.

In 1998 the Ecuadorian economy was adversely impacted by a number of factors including a drop in the international oil prices, the international financial crisis and the effect of El Nino. These facts have caused a reduction in the Ecuadorian gross national product, an increase in the fiscal deficit of the government of Ecuador, a significant depreciation in the Ecuadorian sucre value and high domestic interest rates. The Corporation's operations in Ecuador have been or could be affected by these conditions principally in the form of credit restrictions, limitations on withdrawals from bank accounts and the general recession. However, it is the Corporation's belief that the risk factors described above have not materially impacted the Corporation to date.

NOTE 2 - ACCOUNTING POLICIES

a) **Basis of presentation**
These consolidated financial statements include the accounts of Hampton Court Resources Inc. and its wholly-owned subsidiaries Hampton Court Resources Corp. and Hampton Court Resources Ecuador S.A. Investment in a jointly controlled corporation is accounted for using the proportionate consolidation method, whereby the Corporation's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

b) **Investments**
Investments are recorded at the lower of cost and net realizable value with provision made for permanent declines in value.

c) **Property, plant and equipment**

Oil and gas properties
The Corporation follows the full cost method of accounting for oil and gas properties. Under this method, all costs relating to the exploration for, and the development of, oil and gas reserves are capitalized on a country-by-country cost centre basis. Capitalized costs include those related to lease acquisitions, geological and geophysical activities, carrying charges of non-producing properties, costs of drilling productive and non-productive wells, and overhead related to exploration and development activities.

Costs accumulated within each cost centre are depleted using the unit-of-production method, based on estimated proven oil and gas reserves.

Proceeds from disposal of properties are normally deducted from the cost centre except when the disposition results in a significant change in the depletion rate in which case a gain or loss on disposal is recognized.

Costs of exploration in new cost centres, together with related property costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

The Company carries petroleum and natural gas properties for each area of interest at the lower of capitalized cost or net recoverable value. Net recoverable value is future net revenues from proven reserves plus unproved properties at cost less impairment, if any. Future net revenues are determined using unit prices and production costs in effect at year-end and include an allowance for future capital, site restoration and overhead costs, financing charges and income taxes that will be incurred in earning these revenues.

Production equipment is recorded at cost and depreciated by the unit-of-production method based on estimated proven oil and gas reserves. Other equipment is recorded at cost and depreciated over estimated useful life. The rates in effect range from 20% to 100% reducing balance method.

Mineral properties
The Corporation is engaged in activities related to the acquisition of mineral claims, permits, exploration and development thereon, all expenditures relative thereto, have been capitalized on an area of interest basis. These expenditures are deferred until the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are abandoned or sold or management determines that the mineral property is not economically viable, at which time the deferred costs are written off.

d) **Joint operations**
Substantially all of the oil and gas exploration and development activities of the Corporation are conducted jointly with others and accordingly these financial statements reflect only the Corporation's proportionate interest in such activities.

e) **Site restoration accrual**
Estimated obligations of well abandonment and site restoration are provided for over the life of the oil and gas reserves using the unit-of-production method. The annual provision is expensed as depletion. Actual expenditures are charged to the accrual as incurred.

f) **Foreign currency translation**
The Corporation's business is transacted in Canadian, United States dollars and Ecuadorian Sucres while the currency of display is Canadian dollars. The Corporation's foreign operations are integrated and are included in the financial statement on the basis that monetary assets and liabilities are translated at the year end exchange rate, non-monetary assets and liabilities are translated at historical rates, and expenses are translated at the exchange rate in effect at the time of payment. Exchange gains and losses arising on translation of monetary items are included in the determination of the loss for the current period.

g) **Income taxes**
The Corporation follows the tax allocation method of accounting. Under this method, deferred income taxes are provided to the extent that income taxes otherwise payable are deferred by claiming lease acquisition, exploration, and development costs and capital cost allowance in excess of depletion and depreciation provided in the accounts.

h) **Flow-through shares**
Share capital includes the issue of flow-through shares. Under this financing arrangement, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work on oil and gas properties within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. Oil and gas properties and share capital are reduced by the estimated benefits of the renounced tax deductions when expenditures are incurred.

i) **Per share information**

Per share amounts are calculated based on the weighted average number of shares outstanding during the year. Fully diluted amounts per share are not shown as there are no material dilution factors.

NOTE 3 - ACCOUNTS RECEIVABLE

	1998	1997
Trade	$ 176,901	$ 179,630
Other	40,506	39,394
Employee loans	127,000	-
	$ 344,407	$ 219,024

Employee loans are secured by personal guarantees with interest at prime plus 2% and due on demand. Subsequent to year end this account was reduced by $49,000.

NOTE 4 - INVESTMENTS

	1998	1997
Marketable securities having a quoted market value at December 31, 1998 of $360,599 (1997 - $306,959)	[illegible]	$371,537
Advances to a public corporation convertible to shares of the corporation at $0.10 per share, plus warrants at $0.125, with no set terms of repayment	[illegible]	-
	[illegible]	$371,537

NOTE 5 - PROPERTY, PLANT [illegible]

	December 31, 1998		
	Cost	Accumulated Depletion & Depreciation	**Net**
Oil and gas properties	$3,467,187	$ 252,000	$3,215,187
Mineral properties - acquisition	236,777	-	236,777
- exploration	2,359,994	-	2,359,994
Production equipment	177,257	19,300	157,957
Other equipment	128,932	18,082	110,850
	$6,370,147	$ 289,382	$6,080,765

	December 31, 1997		
	Cost	Accumulated Depletion & Depreciation	Net
Oil and gas properties	$ 2,313,450	$ 157,000	$ 2,156,450
Mineral properties - acquisition	236,777	-	236,777
- exploration	857,055	-	857,055
Production equipment	142,052	13,300	128,752
Other equipment	27,921	4,074	23,847
	$ 3,577,255	$ 174,374	$ 3,402,881

a) United States oil and gas properties
In 1998, the Corporation spent approximately $1,003,000 (1997 - $1,070,000) on exploratory and developmental work on its Arkoma Basin Project and Cleveland properties in Arkansas/Oklahoma, U.S.A.. Activities in these areas are regarded to be in the pre-production stage and accordingly, all costs incurred in this cost centre have been capitalized. The recovery of these capitalized costs is uncertain at this stage and is dependent upon the Corporation completing the multi-year drilling exploration program to evaluate future reserves in this area and achieve commercial production in these areas. Revenues (net of related costs) in the amount of $11,550 (1997 - nil) were offset against capitalized costs during the year.

b) Mineral properties
In 1997, the Corporation was granted exploration permits for six mineral concessions in Ecuador. In the current year the Corporation incurred $1,502,939 (1997 - $955,987) on acquisition and exploration costs. All six exploration permits are for a period of two years and can be renewed by the Corporation, if it so chooses, for an additional four years (in two year intervals). The Corporation has engaged an independent expert to conduct a testing program and evaluate all six concessions. Subsequent to year end the Corporation was granted five additional concessions subject to the same terms as the initial six concessions.

NOTE 6 - DEMAND BRIDGE LOAN

The demand bridge loan bears interest at prime + 2% and is collateralized by investments with a book value of $340,562 and personal guarantees of the two Officers of the Company. The demand bridge loan is repayable in monthly instalments of $10,000 plus interest.

NOTE 7 - DUE TO RELATED CORPORATIONS

The amount due to related corporations, which are owned by the Corporation's President and Vice-President, represent net revenues on account of joint operating activities and costs paid by the related corporations on behalf of the Corporation and services rendered by the related corporations and are unsecured, non-interest bearing and due on demand.

NOTE 8 - DUE TO SHAREHOLDERS

The amount due to shareholders is unsecured, non-interest bearing and due on demand.

NOTE 9 - LONG-TERM DEBT

	1998	1997
Reducing demand loan repayable at the rate of $5,000 per month plus interest at the prime rate of the bank plus 1%.	-	35,000
Due within one year	-	35,000
	$ -	$ -

The reducing demand loan was collateralized by a general assignment of book debts, a first charge demand debenture over all assets and assignment of material gas contracts.

NOTE 10 - CONVERTIBLE DEBENTURES

During the year the Corporation issued $1,000,000 of convertible debentures that bear interest at 10%, are convertible at $1.30 per common share at any time at the option of the holder and mature on November 1, 1999. The convertible debentures will automatically convert to common shares if the Corporation's shares trade at a price of $2.00/share or more for 30 consecutive days. The convertible debentures are collateralized by a floating charge on all the assets of the Corporation except for those currently assigned to the demand bridge loan (Note 6).

The Corporation has split its convertible debentures between a debt component of $945,000 and an equity component of $55,000. The Corporation has calculated the debt component as the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to an issuance of a non-convertible debt at the time the debentures were issued.

NOTE 11 - SHARE CAPITAL

a) The authorized share capital is as follows:

Unlimited number of preferred shares, issuable in one or more series
Unlimited number of common voting shares

The Directors of the Corporation are authorized to fix the number of preferred shares in each series and to determine the designation, rights, privileges, preferences, restrictions and conditions attached to the preferred shares of each series.

b) **Common Shares Issued**

	Number of Shares	Amount
Balance December 31, 1997	17,752,354	$3,644,557
For cash upon the exercise of options	100,000	75,000
For cash upon the exercise of warrants	574,900	1,149,800
For cash under private placements	1,177,500	2,016,250
For cash under flow through shares	242,857	425,000
Convertible debentures (Note 10)	-	55,000
Share issue costs	-	(111,664)
Balance December 31, 1998	19,847,611	$7,253,943

Balance December 31, 1996	14,785,685	$1,925,271
For cash upon the exercise of options	1,300,000	130,000
For cash upon the exercise of warrants	566,669	226,669
In consideration for purchase of oil and gas data	100,000	75,000
For cash under private placements	1,000,000	1,300,000
Share issue costs	-	(12,383)
Balance December 31, 1997	17,752,354	$3,644,557

c) The Corporation established a directors', management and employees' stock option plan. Options issued and exercised under this plan are summarized below:

Common voting shares under option December 31, 1996	1,400,000
Issued January 29, 1997	50,000
Issued February 14, 1997	1,150,000
Issued February 20, 1997	50,000
Issued December 29, 1997	50,000
Exercised during the year	(1,300,000)
Options expired during the year	(50,000)
Common voting shares under option December 31, 1997	1,350,000
Issued February 14, 1998	350,000
Issued March 1, 1998	200,000
Exercised during the year	(100,000)
Common voting shares under option December 31, 1998	1,800,000

180,000 options were granted to employees of the Corporation subsequent to the year end.

NOTE 12 - INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from the basic income tax rate. This difference is accounted for as follows:

	Dec. 31, 1998	Dec. 31, 1997
Expected income tax recovery	$(343,300)	$ (87,500)
Effect on provision due to:		
Non-deductible depletion and depreciation	2,500	1,200
Non-deductible crown royalties and related payments	14,700	18,300
Alberta royalty tax credit	(10,100)	(10,000)
Resource allowance	32,700	(800)
Other non-deductible expenses	1,000	1,000
Non-taxable portion of capital gains	-	(200)
Benefit of losses not recognized	302,500	78,000
	$ -	$ -

At December 31, 1998 the Corporation had non-capital losses of approximately $425,000 carried forward for income tax purposes, the effect of which has not been reflected in these financial statements. If not utilized, these losses will expire on the following dates:

December 31, 2000	$ 7,000
December 31, 2001	6,000
December 31, 2002	1,000
December 31, 2003	86,000
December 31, 2004	325,000
	$ 425,000

At December 31, 1998 the Corporation had unamortized property and equipment costs for income tax purposes which exceeded the amount at which they are recorded for accounting purposes by approximately $203,000 (1997- $149,000).

NOTE 13 - RELATED PARTY TRANSACTIONS

Related companies controlled or influenced by the Corporation's Directors were paid an aggregate of $121,132 (1997 - $56,460) for administrative, geologic, legal and consulting services. The related companies were reimbursed for time spent by their employees in the service of the Corporation in 1997. The President and Vice-President of the Corporation did not receive a salary in 1996, 1997 or 1998.

The Corporation purchased marketable securities at market values in an aggregate amount of $128,500 (1997 - $132,312) from companies controlled by the Corporation's President. To accommodate the use of the flow through share financing, the Corporation purchased interests in oil and gas properties for $50,000 from a company controlled by the Corporation's President. In addition, the Corporation purchased other equipment from a company controlled by the President for $80,480 (1997 - nil). The Corporation has had use of this equipment from 1996 forward at no charge to the Corporation.

NOTE 14 - LEASE COMMITMENT

The Company has leased its office premises on a three year term expiring June 30, 2001 with a minimum annual lease payment of $31,161.

NOTE 15 - FINANCIAL INSTRUMENTS

The Corporation's financial instruments recognized in the balance sheets consist of cash, accounts receivable, investments, demand bridge loan, accounts payable, accrued liabilities due to related corporation, shareholders, reducing demand loan and convertible debentures. The fair values of the financial instruments, except investments, approximate their carrying amounts due to the short-term nature of these instruments. The quoted market value of the investments is disclosed in Note 4.

NOTE 16 - SEGMENTED INFORMATION

The Corporation is involved in two industry segments; one is the exploration, development and production of oil and gas properties in Canada and the United States, and the second being the acquisition and exploration of mineral properties in Ecuador. Geographic information is as follows:

For the year ended December 31, 1998:

	Canada	U.S.A.	Ecuador	Total
Revenues	$ 219,925	$ 4,266	$ -	$ 224,191
Net (loss) earnings	$ (622,196)	$ (105,578)	$ (41,527)	$ (769,301)
Identifiable assets	$ 2,374,357	$ 2,482,564	$ 2,696,511	$ 7,553,432

For the year ended December 31, 1997:

	Canada	U.S.A.	Ecuador	Total
Revenues	$ 192,147	$ 22,006	-	$ 214,153
Net (loss) earnings	$ (186,135)	$ (55,998)	45,916	$ (196,217)
Identifiable assets	$ 1,486,730	$ 1,547,997	$ 1,151,981	$ 4,186,708

NOTE 17 - PER SHARE INFORMATION

	Year ended Dec. 31, 1998	Year ended Dec. 31, 1997
Cash from operations per share	$ (.05)	$ .01
Net loss per share	$ (.04)	$ (.01)
Weighted average number of shares	19,069,025	16,667,434

NOTE 18 - SUBSEQUENT EVENTS

Subsequent to December 31, 1998, the Corporation completed a private placement for 500,000 shares totalling $650,000 (net of share issue costs) for further exploration of natural gas in the United States, for acquiring mineral claims and further mineral exploration in Ecuador and for general and administrative costs.

NOTE 19 - UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. While the Company has a plan to address the Year 2000 Issue, it is not possible to be certain that all aspects of the issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE INFORMATION

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Vice President, Secretary-Treasurer

Conrad P. Kathol,* *B.Sc., P.Eng.*

Wayne G. Carter,* *B.Sc., CPL, P.Land*

Paul J. Stein, *LL.B.*

*denotes member of audit committee

TECHNICAL ADVISOR

Jean P. Roy, *B.Sc. Geol., P.Geoph.*

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Deborah D. Pratt
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Ecuador

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Catalina Feijoo
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Project Manager, Tulsa Office

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National Bank of Canada
Calgary, Alberta, Canada

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Barristers and Solicitors
Calgary, Alberta, Canada

Ecuador

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Quito, Ecuador

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